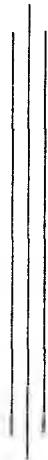


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OUR WHEAT MARKETS



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IN all the public discussions of the United Kingdom-Canada wheat agreement I have not seen the question asked or answered: How do the quantities involved compare with imports from Canada by the U.K. in more normal times? Yet, if we are to act intelligently we should certainly know what wheat the U.K. market took from us when that market was reasonably free to choose what it wanted.

We should know what proportion of our surplus this represented. If the pattern of our international trade has been changed in respect to the U.K. it has, in consequence, been changed also for the rest of the world. There has been much talk of seeking new markets. We should know where our markets have been.

A HARD QUESTION TO ANSWER

It may be thought the above question can be answered merely by turning to the annual volumes of the Trade of Canada and copying the figures of wheat exports by countries; or, in the alternative, by taking the official trade returns of other countries and setting down their reported imports from Canada.

If so, it will come as a surprise to state that the correct answer cannot be found in the Trade of Canada, or in the trade returns of importing countries. Prior to the year 1936 Canada never knew the actual distribution of its exports

of wheat. What happened in that year will be referred to later.

With respect to our exports of wheat to the U.K., but to no other country, the Dominion Bureau of Statistics (DBS) began about 1922 to issue annually the best estimate it could make, after checking against each other all available facts, of the quantity actually exported. These estimates, almost completely neglected by governments and the public, are the only authoritative indication we have of our actual exports to the U.K. and we have not even a responsible estimate for any other individual country.

No corresponding studies or estimates of flour movements have been made. Moreover, the conditions under which flour is exported differ in important respects from those affecting wheat. Therefore, unless expressly stated otherwise, the figures in this article are those of wheat only.

CONFUSION ILLUSTRATED

Before considering the explanation of this extremely unsatisfactory condition, it will be well to have a concrete case before us. For this purpose take the year 1928-9, selected because it is the record year for international trade in wheat and the year of Canada's largest exports. With the larger figures the magnitude of possible discrepancies appears, but any other year would present the same characteristics.

The example is confined to the trade in wheat among the three

countries, Canada, the U.S. and the U.K. The figures in each case are the official customs returns for the same 12 months and are shown in the above chart.

A note or two may help toward an understanding of this extremely unsatisfactory condition of world trade statistics relating to wheat.

Item 1. How Canada's figures became so highly inflated will be considered in the next article.

Item 2. The U.K. records as imports from the U.S. the Canadian wheat shipped from U.S. ports, and as imports from Canada any U.S. wheat similarly shipped through Canada. As there is more of the former than the latter the U.K. figures are low for Canada and high for the U.S.

Item 3. U.K. figures of totals from North America should be correct.

Item 4. For consumption and milling-in-bond, the U.S. buys some wheat in Canada and some out of the bonded stocks already in the U.S. The latter does not appear in Canada's customs returns.

The big figures of U.S. exports to Canada contain re-exports. Some Canadian wheat stored in the U.S. is regularly moved back into Canada (say from Buffalo by water to Montreal) for export through Canada ports. As it had already been counted among the exports from Fort William-Port Arthur, it is not taken again into the Canadian figures but is handled through Canada in bond as if it were foreign wheat.

How the system works in practice, what has been done about it, and why Canadian wheat is more affected than any other, will be outlined briefly in the next article.

Wheat (ex. flour)—Customs Returns

Crop Year 1928-9

Item 1—Canada-U.K. Trade

	Million Bushels
Canadian Customs: Exports to U.K.	209.6
U.K. Customs: Imports from Canada	69.9
Difference	139.7
U.K. Customs: Total Imports, All Countries	192.5
(Canada therefore reported it had, by itself alone, supplied 17.1 million bushels more than the U.K. received from all the world.)	
DBS estimate of Canada's actual exports to U.K.	86.4

Item 2—U.S.-U.K. Trade

U.S. Customs: Exports to U.K.	16.2
U.K. Customs: Imports from U.S.	38.6

Item 3—North America-U.K. Trade

Can. plus U.S. Customs: Exports to U.K.	225.7
U.K. Customs: Imports from North America	108.5

Difference

117.2

Item 4—Canada-U.S. Trade

	Million Bushels
Canadian Customs: Export to U.S.	10.0
U.S. Customs: Imports from Canada	22.5
Canadian Customs: Imports from U.S.	1.3
U.S. Customs: Exports to Canada	41.4

WHY TOTAL TO U. K. IS WRONG

In Table I in the first of these articles a comparison of the official trade returns of Canada, the United Kingdom and the United States for a selected year, 1928-9, makes it appear that Canada exported more wheat to the U.K. by 139.7 million bushels than the U.K. imported from Canada; that the U.K. imported from the U.S. more than double the corresponding U.S. exports; and that the U.S. exported to Canada some 40 million more than Canada received.

REASONS FOR DIFFERENCES

Differences as fantastic as these occur in part because of differences in national systems of recording. But the fundamental difficulty for an exporting country like Canada is that at the time wheat passes the customs outbound, the country which will consume it is unknown and unknowable. Some is only being moved into storage positions in the U.S. or, even if billed right through to a particular country, it may be resold on passage and diverted to a different destination. Yet some country of consignment is required by the customs.

The U.K. is our biggest single market and there is more probability any lot will go there than elsewhere. So it has been the practice to name the U.K. as the country of consignment for wheat that moves across our borders unsold to any consumer.

In 1928-9 the large total of 157.7 million bushels cleared Fort-William-Port Arthur for Buffalo or other U.S. lower lake ports. Of this total no less than 145.8 mil-

lion was reported as exports to the U.K., 1.8 million to other overseas countries and 9.9 million to the U.S. for consumption and milling-in-bond.

In the same year 34.8 million was consigned to the U.K. from Vancouver, 20.0 million from Montreal and a balance of 8.9 million from other ports. No one entertained any idea that the grand total of 209.6 million would ever go to the U.K., but what else could be done? The mistake is in calling it "exports to the U.K." or in so regarding it, when it was only a preliminary conventional consignment of wheat of unknown destinations.

CANADA'S APPROACH TO THE PROBLEM

As to the sales and resales after passing the customs, wheat under the normal trading system is saleable for cash in any position and in Europe there is a well established market for "on passage" wheat. In peace time it has never been the policy of Europe to accumulate in storage, either seasonally or over longer terms, large reserves of imported wheat.

Moderate working stocks are held in mill bins and port elevators but the real body of reserves is on the ocean, steaming toward Europe from all quarters of the globe. In 1928-9, according to Broomhall's returns, the average quantity thus always approaching Europe was 55 million bushels.

A substantial part of such wheat is put afloat "to orders", under charters allowing a range of delivery points, in some cases as wide as "U.K.-Continent". A car-

go may change ownership more than once on passage and it is the last owner who decides the country and port of discharge.

If destinations cannot be known when exports take place, how about working from the other end? With some changes in methods, importing countries could report the origins of their wheat imports, but the difficulties in effecting the necessary degree of co-operation and the probable delays are obvious.

A not impracticable alternative, temporarily at least, is that any exporting country to which it seems worth while should undertake to trace its own shipments to their final destinations. This is what Canada did in 1936, when the Board of Grain Commissioners was instructed to enlist the co-operation of all agencies participating in the movement of our grains and report the results. This work has been carried on with notable success and, since 1936 for the first time, we have been able to tell where our export grains have gone.

SALES IN TRANSIT

An incidental advantage of the new system is that we can now get the true timing of our overseas business. Wheat being moved to the U.S. is reported by the customs as an export on the date it

clears Fort William-Port Arthur. To get the benefit of the cheaper lake-and-rail freights, owners of grain ship over the lakes before navigation closes, not only their current requirements, but also the quantities they expect to be able to sell during the months of closed navigation.

Some of this grain lies in eastern storage for many weeks, or even months, before being used to meet foreign demand. From our trade returns the impression is created that we export abroad in the autumn much more than in any other season. This impression is not supported by the facts.

The Board reports overseas exports in the month in which they clear an ocean port, whether of the U.S. or of Canada.

GETTING THE TIMING RIGHT

But marketing conditions since 1936 have been so artificial that the Board's figures cannot give the answer to the general question raised as to the normal character and size of the U.K. market for our wheat. For earlier years we must look to the DBS estimates as the most reliable information.

These estimates for a period of years and comparisons with trade returns will be given in the next article.

CANADA'S REAL CUSTOMERS

Because of the conditions outlined in the two previous articles, the Dominion Bureau of Statistics began about 1922 the issue of yearly estimates of Canada's real exports of wheat to the U.K. (but to no other country.) These estimates were calculated on a calendar year basis, which is not a satisfactory statistical period for grain.

So, for submission to the Turgeon Commission of 1936, the material was recalculated on a crop-year basis and submitted as Statistical Document No. 14 in the evidence of the statistician of the Canadian Wheat Board. The period covered is the 11 crop years 1925-6 to 1935-6. The authority stated is "Dominion Bureau of Statistics". It is these figures in condensed form which are presented in the table below, with the addition of a few calculations of totals, averages and percentages.

WHAT THE ESTIMATES SHOW

The compilation gives direct estimates of our actual exports of wheat to the U.K. as compared with the customs figures and the difference between them. Then, on the assumption that all wheat consigned to the U.K. which did not reach that country must have been diverted to some other part of Europe, the total for the rest of Europe is calculated and compared with the sum of the customs report for the various countries.

As a whole, the period covered is far from normal but it is representative of the inter-war years and has important significance. Moreover, it is the only extended period prior to 1936 for which we have even authoritative estimates.

To those whose views have rested on the customs returns, these figures must appear revolutionary. Total actual imports by the U.K. from Canada in the 11 years have been reduced by no less than 804.1 million bushels and its percentage of Canada's exports to all countries from 66.2 to 34.3 per cent.

With respect to the totals to the rest of Europe, it should be pointed out that the assumption is rather too broad that all Canadian wheat originally cleared for the U.K., but later diverted, went to other European countries.

It has been seen that some wheat consigned to the U.K. is merely being moved unsold to strategic storage positions in the U.S. from which it may later be shipped to any continent. But the quantity not finally reaching Europe would not likely be large enough to modify materially the relative distribution shown in the table, and continental Europe would still stand as our biggest regional market. Unfortunately no estimates are available of the distribution by individual European countries.

A few general observations will be offered in a concluding article.

Canada's Wheat Exports
1925-6 — 1935-6
Million Bushels

Table 2

Crop Year	To United Kingdom		To Rest Of Europe	
	Customs Returns	Revised Estimates	Customs Returns	Revised Estimates
1925-6	198.4	97.0	44.5	145.9
1926-7	185.3	89.1	44.8	141.0
1927-8	201.7	81.6	65.0	185.1
1928-9	209.6	86.4	97.7	220.9
1929-30	105.0	58.9	35.9	81.9
1930-1	135.1	63.0	64.0	136.1
1931-2	101.6	60.0	60.5	102.1
1932-3	156.5	102.0	69.9	124.3
1933-4	114.9	68.7	49.0	95.2
1934-5	100.7	65.4	23.2	58.4
1935-6	162.9	95.0	34.9	102.8
11-Year Totals	1,671.6	867.1	589.4	1,393.9
11-Year Average	151.9	78.8	53.6	126.7
Per Cent. of Canada's Exports to All Countries				
	U.K.	Rest of Europe	Other Countries	
Customs	66.2%	23.3%	10.5%	
Revised	34.3%	55.2%	10.5%	

POLICY MUST CONSIDER PRICE

From the authoritative estimates in Table 2 in the last article it appears that continental Europe was the big regional market for our wheat in the inter-war years, but the quantity taken by any continental country is unknown. As for the U.K., the direct estimates, likely to be approximately correct, indicate average yearly takings of 78.8 million bushels.

The first 4 of the 11 years covered, 1925-6-1928-9, were the best general business years between the wars and perhaps the only years that can fairly be classed as normal. In that 4 years the U.K. took on the average 88.5 million per year.

COMPARISON WITH INTER-WAR YEARS

As no revised figures exist for flour, an equally authoritative calculation cannot be made of total wheat-and-flour exports with which totals in the wheat agreement may be compared. If, however, the customs figures for flour do not need serious revision, the wheat-and-flour average for the 11 years might be about 90 million, and for the 4 years 100 million bushels.

In the agreement the wheat-and-flour average is 150 million. These figures, it would seem, give the only answer possible from existing data to the question: How

do the quantities involved in the agreement compare with imports from Canada by the U.K. in more normal times?

EFFECTS ON PRICES

A qualifying phrase really should be added to that question. What it is important to know is the normal or natural market in the U.K. for Manitoba northern wheat—at premium prices. This point cannot be developed here, but Manitobas quite regularly command a premium in world markets. This is not because of their calories but of their gluten.

For the proportion of Manitobas necessary to tone up "weak" domestic or imported wheats and make a light attractive loaf, millers in all parts of the world have been prepared to pay a premium price. Beyond that proportion, Manitobas lose their special merit. The U.K. could have bought 150 million bushels in Canada in any period of years in the past if it had wanted to do so, for it imported a substantially larger total than that, but it did not want more at the higher price. It is in the interest of higher prices that Canada should have many customers rather than a few.

TRADE BALANCE NEEDS REVISION

After all deductions the U.K. remains what it has always been, our biggest, most consistent, and therefore most valuable single market for wheat, but it has never been as big a market as is generally understood. And there is an interesting corollary. The value of the 804 million bushels cut by DBS from the 11-year total must also, of course, be cut from "balance of trade" statements.

The balance of merchandise trade has never been as adverse to the U.K. as generally represented in this country. Using its own revised figures for wheat and taking account of the economic services for which nations have to pay each other just as they do for merchandise, the latest tentative "balance of payments" issued by the Bureau ('The Canadian Balance of International Payments', 1947, p. 23) shows the U.K. with a favorable balance on current account in 6 of the 12 years covered, 1926-1937.

The whole question of our past economic relations with the U.K. needs to be reconsidered.

WHAT CUSTOMS FIGURES SHOW

Nothing pointed out in these articles has been in disparagement of the statistical work of the customs. Primarily a government agency for the collection of public revenues, it counts and reports the numbers and kinds of all physical goods crossing the national boundary. Its records are the only data we have on the quantities and kinds of goods exported and imported. Its totals are undoubtedly correct. It reports also ports of consignment, again correctly no doubt. In as far as these indicate the shipping routes being used this information is of value to the world's merchant marine.

The trouble comes when points of consignment are assumed to be points of origin and of ultimate destination, and are accepted as exports and imports by those who draw up bilateral "balance of trade" statements. Questions also arise about accepting customs valuations, fixed as a basis for levying taxes, as the actual

amounts for which settlement must be made between nations. But this matter does not enter in the present case.

Other commodities are affected by the conditions governing wheat. Coarse grains are in exactly the same position, with flour more doubtful. In the 1947 Review of Foreign Trade, the Bureau mentions aluminum as sometimes diverted and there may be many more such cases. Many countries may have no diversions of any commodity and their points of consignment may be the real destinations. Studies have not been made except for wheat.

WARNED AGAINST HASTY CONCLUSIONS

World trade statistics are surely in extremely unsatisfactory condition. This has been recognized by official statisticians. Toward partial remedy much work has been done in recent years on balance of "payments" statements, as

distinguished from balances only of merchandise exchanges. Just before the last war the League of Nations circulated to its member nations a draft standard form for this purpose. "Adjusted" figures of merchandise trade were to be used, making allowance, as far as possible, for such conditions as inflated exports or inexact values, and adding details of all other factors in the economic transactions between nations.

Although this form in all details is not yet in use and there is no uniformity, Canada's present schedule seems at least as comprehensive as any. But the warning has always prominently been given, by the League and by national agencies, that results so far are "tentative" only and that great care must be exercised in drawing conclusions.

In this period of loose economic thinking and of hasty conclusions affecting policy, this admonition is needed more than ever before.

